

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /138 W
-----104830 242217Z /73

R 241800Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8864
INFO AMEMBASSY PARIS
AMEMBASSY VIENNA
AMEMBASSY BRUSSELS
AMEMBASSY WARSAW
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT

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USEEC

USOECD

E. O. 11652: N/A
TAGS: ENRG, EMIN, GW
SUBJ: FRG ANNOUNCES FURTHER ASSISTANCE TO THE GERMAN
COAL INDUSTRY

REF: BONN 1145

SUMMARY. ON MAY 3, ECONOMICS MINISTER OTTO COUNT
LAMBSDORFF ANNOUNCED A DECISION BY THE FEDERAL CABINET
TO PROVIDE INCREASED PUBLIC ASSISTANCE -- OVER AND ABOVE
PLANNED 1978 SUBSIDIES -- TO THE GERMAN COAL MINING AND
COKE PRODUCING INDUSTRIES. FINAL APPROVAL BY THE
BUNDESTAG IS EXPECTED WITHOUT DIFFICULTY. TOTAL PUBLIC
ASSISTANCE FOR THE INDUSTRY THIS YEAR WILL REACH WELL
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OVER DM 5 BILLION. END SUMMARY.

1. PUBLIC FINANCIAL ASSISTANCE TO THE COAL AND COKE
INDUSTRIES IS PROVIDED BY THE FEDERAL GOVERNMENT IN BONN,
AS WELL AS BY THE STATE GOVERNMENTS OF NORTH RHEIN
WESTPHALIA AND THE SAAR. THE SPLIT IS TWO-THIRDS/ONE-
THIRD -- FEDERAL/STATE. THERE ARE TWO MAIN FORMS OF

ASSISTANCE: FINANCIAL ASSISTANCE COVERING NEEDED STRUCTURAL CHANGES AND NEW INVESTMENT IN THE COAL INDUSTRY; AND A DIRECT SUBSIDY TO SUPPORT THE PRICE OF DOMESTIC COAL SOLD TO THE STEEL INDUSTRY FOR COKING.

2. PUBLIC FUNDS PREVIOUSLY BUDGETED FOR 1978 TOTAL 1.4 BILLION MARKS (DM 125 MILLION FOR SOCIAL HELP TO LAID-OFF MINERS; MINE CLOSURE ASSISTANCE, DM 206 MILLION; STRUCTURAL ASSISTANCE INVESTMENT AND RESEARCH GRANTS, ETC., DM 626 MILLION; STOCKPILING, DM 91 MILLION; AND SUBSIDIES FOR COKING COAL, DM 366 MILLION.) THE 1978 FIGURE IS A RECORD HIGH COMPARED TO PREVIOUS YEARS' EXPENDITURES AS FOLLOWS:

YEAR	MILLION DM	PORTION USED FOR MINING INNOVATION AND DEVELOPMENT PROJECTS
1970	376.5	-
1971	280.1	-
1972	441.4	-
1973	898.1	4.9
1974	1,074.1	8.8
1975	852.9	31.5
1976	806.1	31.4
1977	1,062.3	36.0

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1978	1,407.9	39.8
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(PLANNED)

3. THE GOVERNMENT'S MOST RECENT ACTION WILL INCREASE PUBLIC ASSISTANCE OVER THE NEXT FOUR YEARS ON THE STRUCTURAL SIDE (PROMOTING NEW INVESTMENT) TO DM 1.6 BILLION (DM 582 MILLION P.A.) TO WHICH WILL BE ADDED DM 776 MILLION FROM NORTH RHINE WESTPHALIA AND THE SAARLAND. ON THE COKING COAL SIDE, THE FRG HAS MADE A COMMITMENT FOR A FURTHER DM 1.3 BILLION SUBSIDY TO MAKE UP THE DIFFERENCE OF DM 40-45 PER TON OF COAL BETWEEN THE CURRENT WORLD MARKET PRICE AND THE COST OF PRODUCTION OF DOMESTICALLY MINED COAL.

4. ANCILLARY TO THE GOVERNMENT'S PROGRAM IS A TEN YEAR AGREEMENT SIGNED BY THE COAL MINING INDUSTRY AND THE ELECTRIC POWER PRODUCERS IN WHICH THE UTILITIES AGREE TO PURCHASE ANNUALLY A MINIMUM 33 MILLION METRIC TONS TO SUPPLY COAL-FIRED POWER STATIONS.

5. FROM THE INDUSTRY STANDPOINT, THE GOVERNMENT'S PROGRAM IS EXPECTED TO HELP THEM KEEP AFLOAT THROUGH A

RATHER DEPRESSED PERIOD, ESPECIALLY SINCE THE STEEL

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INDUSTRY HAS ALSO BEEN HARD HIT BY RECESSION FOR THE
LAST THREE YEARS AND HAS BEEN SLOW TO PURCHASE COAL FOR
COKING. ANNUAL COAL MINING CAPACITY TODAY IS ESTIMATED
AT ABOUT 90 TO 95 MILLION TONS FROM 43 MINES (32 IN THE
RUHR AREA MOSTLY OWNED BY RUHRKOHLE A.G. ESSEN),
WHILE AVERAGE ANNUAL PRODUCTION OF COAL IS PROJECTED TO
REACH 82 MILLION TONS P.A. BY 1980. THE INDUSTRY IS
EXPECTED TO CONTINUE CLOSING ITS LEAST EFFICIENT MINING
OPERATIONS AND TO CUT 6000 JOBS IN 1978 ALONE THROUGH
NATURAL ATTRITION AND EARLY RETIREMENT. ON THE OTHER
HAND GOVERNMENT ASSISTANCE WILL ALSO NOW ALLOW THE FIRMS
TO RESUME MODERNIZING AND RATIONALIZING BY NEW INVESTMENT
AS WELL AS TO GIVE A BOOST TO R AND D PROJECTS.

6. AT THE SAME TIME AS THE DOMESTIC PROGRAM GOES INTO
FULL SWING, THE FRG HAS MADE APPROACHES TO THE EC TO
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GAIN INCREASED COMMUNITY ASSISTANCE FOR CONSTRUCTION OF COAL-FIRED POWER STATIONS; SUBSIDIES FOR BOTH COKING AND STEAM COAL (EC OFFERS OF ASSISTANCE SO FAR HAVE BEEN CALLED INSUFFICIENT); TOGETHER WITH THE LONG STANDING GERMAN REQUEST THAT THE EC RESTRICT IMPORTS OF COAL FROM THIRD COUNTRIES. THE FRG CONTINUES TO IMPOSE ITS OWN STRICT QUOTA LIMITATIONS ON IMPORTS OF COAL FROM NON-EC COUNTRIES. PRESS REPORTS INDICATE THAT COAL WILL BE A MAJOR TOPIC OF DISCUSSION AT THE MAY 30 MEETING OF THE EC ECONOMICS MINISTERS IN BRUSSELS.

7. COMMENT. FROM THE GOVERNMENT'S POINT OF VIEW THERE ARE TWO BASIC JUSTIFICATIONS FOR ITS COSTLY COAL PROGRAM. OF IMMEDIATE CONSEQUENCE IS THE FACT THAT AN ESTIMATED 6000 JOBS WILL BE SAVED THAT WOULD OTHERWISE BE IN JEOPARDY. OF LONGER TERM IMPORTANCE IS THE GOAL TO PRESERVE COAL PRODUCTION CAPACITY TO MEET FUTURE NEEDS. SINCE COAL IS THE ONLY MAJOR ENERGY RESOURCE WHICH GERMANY HAS, THE FRG HAS BEEN EXTREMELY PROTECTIVE IN ITS APPROACH TO THE DOMESTIC COAL INDUSTRY. THE OUTLINE OF GERMAN ENERGY POLICY INCLUDING COAL WAS ENUNCIATED IN THE RECENT SECOND REVISION (ZWEITE-FORTSCHREIBUNG) OF THE FRG ENERGY PROGRAM, REPORTED IN REF A. IN THAT PROGRAM THE GOVERNMENT POINTED TO THE VITAL IMPORTANCE OF DEVELOPING BOTH COAL AND NUCLEAR POWER AS THE PILLARS OF FUTURE GERMAN ENERGY SUPPLY, WITH PREFERENCE TO BE ACCORDED TO COAL WHEREVER POSSIBLE. THE LATEST GOVERNMENT ACTION IS ENTIRELY CONSISTENT WITH THIS GOAL.
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